

MILFORD MUNICIPAL UTILITIES
(A Component Unit of the City of Milford, Iowa)

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2020

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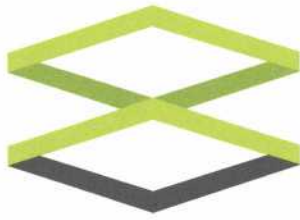
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MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA

AS OF JUNE 30, 2020

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Keith Wurtz	Trustee (Chairman)	December 31, 2020
Mike Anderson	Trustee (Vice Chairman)	December 31, 2025
Kevin Wharton	Trustee	December 31, 2021
Ken Behrens	Trustee	December 31, 2023
Kae Hoppe	Trustee	December 31, 2024
Brad Willemssen	General Manager	Indefinite



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Milford Municipal Utilities

Report on the Financial Statements

We have audited the accompanying basic financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the electric and water enterprise funds of Milford Municipal Utilities at June 30, 2020, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the electric and water enterprise funds of Milford Municipal Utilities, a component unit of the City of Milford, and do not purport to, and do not, present fairly the financial position of the City of Milford as of June 30, 2020 and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Utilities' June 30, 2019 financial statements, and our report dated January 10, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it had been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability and the Schedule of Utilities' Contributions on pages 5 through 8 and 30 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milford Municipal Utilities' internal control over financial reporting and compliance.

Wintner, Stave & Co, LLP

January 8, 2021
Milford, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2019 - 2020 FINANCIAL HIGHLIGHTS

- MMU's operating revenues decreased 5.1%, or \$291,260, from fiscal year 2019 to fiscal year 2020.
- Operating expenses decreased 0.5%, or \$23,139, from fiscal year 2019 to fiscal year 2020.
- The MMU's net position increased 6.9%, or \$1,189,909, over the June 30, 2019 balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of MMU's financial activities.

The Statements of Net Position includes the Utilities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The Statements of Revenues, Expenses, and Changes in Net Position report all revenues and expenses incurred during the fiscal year.

The Statements of Cash Flows presents cash receipts, cash disbursements, and net changes in cash resulting from operations, capital and related financing activities, noncapital financing activities, and investing activities.

Notes to the Financial Statements provide the required disclosures and other information that is necessary to give the reader a complete understanding of the data provided in the statements. The notes present information about the Utilities' accounting policies, material risks, obligations, commitments, contingencies, and subsequent events.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' proportionate share of the net pension liability and related contributions, as well as related ratios and notes.

The Supplementary Information in Schedules 1 and 2 provides detailed information about the direct costs and expenses of each Utility.

REPORTING MMU'S FINANCIAL ACTIVITIES

Financial Statements

Milford Municipal Utilities utilizes proprietary funds to account for MMU's enterprise funds and to report business type activities. MMU maintains two funds to provide separate information for the electric and water funds, which are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in combined net position for the electric and water funds.

Net Position at Year End		
	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 8,112,936	\$ 6,933,178
Capital assets - net of depreciation	12,403,993	12,415,209
Deferred outflows of resources	<u>98,407</u>	<u>130,957</u>
Total assets and deferred outflows of resources	<u>20,615,336</u>	<u>19,479,344</u>
Long-term debt outstanding	1,435,505	1,550,232
Other liabilities	556,738	540,589
Deferred inflows of resources	<u>73,883</u>	<u>29,222</u>
Total liabilities and deferred inflows of resources	<u>2,066,126</u>	<u>2,120,043</u>
Net position:		
Net investment in capital assets	11,284,385	11,120,641
Restricted	550,708	444,022
Unrestricted	<u>6,714,117</u>	<u>5,794,638</u>
Total net position	<u>\$18,549,210</u>	<u>\$17,359,301</u>

Changes in Net Position for the Year Ended June 30,		
	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 5,436,069	\$ 5,727,329
Operating expenses	<u>4,328,042</u>	<u>4,351,181</u>
Operating income	1,108,027	1,376,148
Non-operating income	<u>81,882</u>	<u>105,885</u>
Increase in net position	1,189,909	1,482,033
Net position - beginning of year	<u>17,359,301</u>	<u>15,877,268</u>
Net position - end of year	<u>\$18,549,210</u>	<u>\$17,359,301</u>

INDIVIDUAL MAJOR FUND HIGHLIGHTS

- Electric Fund operating revenues showed a decrease of \$298,203, mostly due to a decrease in Neal #4 credits. The Electric Fund operating expenses decreased \$117,812, partially attributable to the decrease in power and transmission costs. The ending net position balance was \$12,208,816, an increase of \$828,586 from last year's ending net position balance.
- Water Fund operating revenues increased by \$6,943. Operating expenses increased \$94,673, attributed to an increase in operating expenses and administrative costs. The ending net position balance was \$6,340,394, an increase of \$361,323 from the prior year's ending net position.

BUDGETARY HIGHLIGHTS

MMU's disbursements for business type activities did not exceed the budgeted limit for 2020.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, MMU had \$12,403,993 (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net decrease (including additions and deletions, net of depreciation) of \$11,216 or 0.1% as compared with last year. Depreciation charges totaled \$642,510 for the fiscal year 2020. Total accumulated depreciation was \$14,289,492 at June 30, 2020. See Note 3 to the financial statements for more information about MMU's capital assets.

Long-Term Debt/Liabilities

At June 30, 2020, MMU had \$1,119,608 in revenue bonds outstanding compared to \$1,294,568 at June 30, 2019. Additional information about MMU's long-term debt is presented in Notes 4 and 5 to the financial statements.

ECONOMIC FACTORS

Milford Municipal Utilities (MMU) remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

MMU is currently undergoing a water plant study performed by Bolton & Menk. The purpose of the study is to evaluate the water supply and treatment facilities and provide recommendations for future improvements for the next 10 years. Overall, the study will provide a roadmap of how MMU has provided safe drinking water to its customers and how it can continue to do so in the future. MMU will also be working with the City of Milford on the P Avenue project to include water main relocation.

MMU will be implementing an AMI meter reading system starting in January of 2021. The improvements of the AMI system require the replacement of electric and water meters. The MMU Board of Trustees recently approved a water rate increase to pay the needed bond to provide the financial support for the project.

DGR Engineering is providing MMU with task orders for electric system long range planning, generation addition feasibility study, and an electric rate study. The task orders will develop a 10-year load growth to include system improvements and the needed increase for additional generation. The electric rate study will recommend the possible need of rate increases for financial support of the 10-year plan.

In October 2015, NIMECA members including MMU, Cornbelt Power and WAPA joined the Southwest Power Pool (SPP), a Regional Transit Authority. SPP oversees the bulk electric grid and wholesale power market in the central United States on behalf of a diverse group of utilities and transmission companies in 14 states. They ensure the reliable supply of power, adequate transmission infrastructure, and competitive wholesale electricity prices for a 575,000-square-mile region including more than 60,000 miles of high-voltage transmission lines. MMU is benefiting from joining by receiving a return on the Utilities' investment into the transmission lines, known as the Common Transmission System. This is shown in the operating revenues on the Statement of Revenues, Expenses and Changes in Net Position.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Avenue, Milford, Iowa 51351.

BASIC FINANCIAL STATEMENTS

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	Electric Fund	Water Fund	Total 2020	Total 2019
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents:				
Undesignated	\$ 2,602,215	\$ 479,766	\$ 3,081,981	\$ 2,248,231
Board designated:				
Improvement and extension	342,562	108,803	451,365	433,954
End user fee funds		1,564,587	1,564,587	1,222,125
Vehicle and equipment funds	347,042	130,055	477,097	735,178
Engine maintenance	127,539		127,539	125,179
Fuel oil fund	13,525		13,525	13,360
Water quality		49,239	49,239	36,735
Community development fund	125,659		125,659	124,126
Total cash and cash equivalents	3,558,542	2,332,450	5,890,992	4,938,888
Accounts receivable	448,080	200,595	648,675	612,398
Inventories	440,328	43,573	483,901	470,440
Prepaid expenses	49,060	36,949	86,009	109,915
Other receivables	145,490		145,490	57,534
TOTAL CURRENT ASSETS	4,641,500	2,613,567	7,255,067	6,189,175
NONCURRENT ASSETS:				
Other assets:				
Purchased service rights - at cost	13,470		13,470	13,470
Total other assets	13,470		13,470	13,470
Restricted assets:				
Consumers' deposit fund	53,017		53,017	52,370
Revenue bond sinking fund		28,173	28,173	27,829
Principal and interest reserve		122,748	122,748	121,251
CTS - improvement fund	522,535		522,535	416,193
Whelan #2 reserve	110,141		110,141	107,751
Neal #4	7,785		7,785	5,139
Total restricted assets	693,478	150,921	844,399	730,533
TOTAL NONCURRENT ASSETS	706,948	150,921	857,869	744,003
CAPITAL ASSETS:				
Capital assets	17,148,421	9,545,064	26,693,485	26,188,175
Accumulated depreciation	(9,698,136)	(4,591,356)	(14,289,492)	(13,772,966)
TOTAL CAPITAL ASSETS - NET	7,450,285	4,953,708	12,403,993	12,415,209
TOTAL ASSETS	12,798,733	7,718,196	20,516,929	19,348,387
DEFERRED OUTFLOWS OF RESOURCES:				
Pension related deferred outflows	67,524	30,883	98,407	130,957
TOTAL	\$12,866,257	\$7,749,079	\$20,615,336	\$19,479,344

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION - Continued
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	Electric Fund	Water Fund	Total 2020	Total 2019
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	\$ 249,591	\$ 68,974	\$ 318,565	\$ 208,882
Accrued employee benefits	5,722	3,790	9,512	7,004
Accrued payroll	48,693	31,010	79,703	63,245
Accrued payroll taxes	2,325	1,574	3,899	1,552
Accrued sales tax	8,467	5,859	14,326	18,323
Accrued property tax	12,629		12,629	10,913
Accrued wheeling	9,257		9,257	9,057
Consumers' deposits	30,999	13,450	44,449	46,653
Current portion long-term debt		64,398	64,398	174,960
TOTAL CURRENT LIABILITIES	<u>367,683</u>	<u>189,055</u>	<u>556,738</u>	<u>540,589</u>
LONG-TERM DEBT:				
Revenue notes payable		1,119,608	1,119,608	1,294,568
Less current portion above		(64,398)	(64,398)	(174,960)
Net pension liability	<u>243,410</u>	<u>136,885</u>	<u>380,295</u>	<u>430,624</u>
TOTAL LONG-TERM DEBT	<u>243,410</u>	<u>1,192,095</u>	<u>1,435,505</u>	<u>1,550,232</u>
TOTAL LIABILITIES	<u>611,093</u>	<u>1,381,150</u>	<u>1,992,243</u>	<u>2,090,821</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues:				
Pension related deferred inflows	<u>46,348</u>	<u>27,535</u>	<u>73,883</u>	<u>29,222</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>46,348</u>	<u>27,535</u>	<u>73,883</u>	<u>29,222</u>
NET POSITION:				
Net investment in capital assets	7,450,285	3,834,100	11,284,385	11,120,641
Restricted for:				
Debt service		28,173	28,173	27,829
Capital projects	522,535		522,535	416,193
Unrestricted	<u>4,235,996</u>	<u>2,478,121</u>	<u>6,714,117</u>	<u>5,794,638</u>
TOTAL NET POSITION	<u>12,208,816</u>	<u>6,340,394</u>	<u>18,549,210</u>	<u>17,359,301</u>
TOTAL	<u>\$12,866,257</u>	<u>\$7,749,079</u>	<u>\$20,615,336</u>	<u>\$19,479,344</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	Electric Fund	Water Fund	Total 2020	Total 2019
OPERATING REVENUES:				
Residential	\$ 1,562,854	\$ 753,104	\$ 2,315,958	\$ 2,300,680
Commercial	555,936	453,283	1,009,219	1,061,654
Demand	999,012		999,012	1,007,311
Tank water sales		4,469	4,469	
Meter sales		16,956	16,956	8,172
Public authorities	94,159		94,159	97,363
Water department	40,355		40,355	47,218
Neal #4 credits	215,372		215,372	509,218
Diesel credits	256,522		256,522	256,521
TCR/ARR credit	25,556		25,556	28,907
ATTR revenue	334,228		334,228	339,138
Consumer penalties	7,300	2,164	9,464	9,344
Miscellaneous income	109,304	5,495	114,799	61,803
TOTAL OPERATING REVENUES	<u>4,200,598</u>	<u>1,235,471</u>	<u>5,436,069</u>	<u>5,727,329</u>
OPERATING EXPENSES:				
Direct costs	2,141,547	162,723	2,304,270	2,560,717
Operating expenses	431,369	255,161	686,530	583,580
Administrative expenses	852,680	484,562	1,337,242	1,206,884
TOTAL OPERATING EXPENSES	<u>3,425,596</u>	<u>902,446</u>	<u>4,328,042</u>	<u>4,351,181</u>
OPERATING INCOME	<u>775,002</u>	<u>333,025</u>	<u>1,108,027</u>	<u>1,376,148</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	46,960	30,693	77,653	109,819
Other income	14,371	4,614	18,985	17,389
Gain (loss) on sale of assets	(7,151)	25,011	17,860	20,670
Interest expense	(596)	(32,020)	(32,616)	(41,993)
TOTAL NON-OPERATING REVENUES - NET	<u>53,584</u>	<u>28,298</u>	<u>81,882</u>	<u>105,885</u>
CHANGE IN NET POSITION	828,586	361,323	1,189,909	1,482,033
NET POSITION - BEGINNING OF YEAR	<u>11,380,230</u>	<u>5,979,071</u>	<u>17,359,301</u>	<u>15,877,268</u>
NET POSITION - END OF YEAR	<u>\$12,208,816</u>	<u>\$6,340,394</u>	<u>\$18,549,210</u>	<u>\$17,359,301</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	Electric Fund	Water Fund	Total 2020	Total 2019
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$4,097,823	\$1,212,225	\$5,310,048	\$5,742,197
Cash paid to suppliers	(2,715,807)	(377,861)	(3,093,668)	(3,314,018)
Cash paid to employees	(332,159)	(205,904)	(538,063)	(500,401)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,049,857</u>	<u>628,460</u>	<u>1,678,317</u>	<u>1,927,778</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(249,518)	(415,116)	(664,634)	(638,681)
Proceeds from sale of capital assets		51,200	51,200	24,400
Revenue bond principal repayment	(112,320)	(62,640)	(174,960)	(683,321)
Interest paid	(596)	(32,020)	(32,616)	(41,993)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(362,434)</u>	<u>(458,576)</u>	<u>(821,010)</u>	<u>(1,339,595)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest reinvested		(1,841)	(1,841)	(2,963)
Interest received from investments	46,960	30,693	77,653	109,819
Other income	14,371	4,614	18,985	17,389
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>61,331</u>	<u>33,466</u>	<u>94,797</u>	<u>124,245</u>
NET INCREASE IN CASH	748,754	203,350	952,104	712,428
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,809,788</u>	<u>2,129,100</u>	<u>4,938,888</u>	<u>4,226,460</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$3,558,542</u>	<u>\$2,332,450</u>	<u>\$5,890,992</u>	<u>\$4,938,888</u>

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)

	Electric Fund	Water Fund	Total 2020	Total 2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 775,002	\$333,025	\$1,108,027	\$1,376,148
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	425,488	217,022	642,510	624,180
(Increase) decrease in:				
Accounts receivable	(13,031)	(23,246)	(36,277)	28,149
Allowance for doubtful accounts				
Inventories	(22,541)	9,080	(13,461)	15,138
Prepaid expenses	1,051	22,855	23,906	24,783
Other receivables	(87,956)		(87,956)	(1,366)
Consumer deposits	(647)		(647)	(1,038)
CTS improvement fund	(106,342)		(106,342)	15,356
Whelan #2 reserves	(2,390)		(2,390)	(1,752)
Neal #4	(2,646)		(2,646)	(6,674)
Deferred outflow of resources	13,712	18,838	32,550	110,477
Increase (decrease) in:				
Accounts payable	60,046	49,637	109,683	(139,147)
Accrued employee benefits	1,010	1,498	2,508	1,338
Accrued payroll taxes	1,235	1,112	2,347	(1,769)
Accrued payroll	8,484	7,974	16,458	(13,436)
Accrued sales tax	(2,735)	(1,262)	(3,997)	1,956
Accrued property tax	1,716		1,716	(1,592)
Accrued wheeling	200		200	128
Consumer deposits	(1,141)	(1,063)	(2,204)	(9,868)
Net pension liability	(28,184)	(22,145)	(50,329)	(25,321)
Deferred inflow of resources	29,526	15,135	44,661	(67,912)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$1,049,857</u>	<u>\$628,460</u>	<u>\$1,678,317</u>	<u>\$1,927,778</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Milford Municipal Utilities (Utilities) is a separate and distinct city utility chartered under Iowa Code Section 388. The financial statements of the Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford, Iowa. Milford Municipal Utilities is governed by a five-member Board of Trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore, financial information concerning the Utilities is not included.

For financial reporting purposes, Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

Shared Utility Plants

Common Transmission System - North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including Milford Municipal Utilities, has entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS), necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. Milford Municipal Utilities has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at June 30, 2020 was \$1,087,444.

Neal 4 Generating Station - Milford Municipal Utilities is one of fifteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreements between MidAmerican Energy and the owners. Milford Municipal Utilities owns 0.347 percent as a tenant-in-common of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. Milford Municipal Utilities' cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2020 was \$1,073,984.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Shared Utility Plants - Continued

The operators of both the Common Transmission System and Neal 4 shared utility plants have established accounts to which Milford Municipal Utilities is required to pay its pro rata share, net of revenues earned, of operation and maintenance costs. Any disbursements from these accounts for operating and maintenance costs are reflected in the financial statements of Milford Municipal Utilities. Separate financial statements for these shared utility plants are available upon request.

Basis of Presentation

The accounts of Milford Municipal Utilities are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate accounting entity. Individual funds are reported as separate columns in the financial statements as follows:

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Measurement Focus and Basis of Accounting

The financial statements of the Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed for state and local governments by the Government Accounting Standards Board. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue Recognition

Revenues earned are recorded at the time the service is billed based on meter readings. Unbilled usage for service consumed between periodic scheduled billing dates and the end of each month is estimated and recorded but is not considered to have a material effect on the financial statements.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost and set forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized.

Replacements and betterments of capital assets are included in capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20 - 50
Equipment	7 - 20
Distribution System	20 - 67

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets

Funds set aside for payment of the Utilities' revenue notes, common transmission system improvements and other accounts are classified as restricted assets since their use is restricted by applicable note indentures and contractual agreements.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future year(s) which will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred, included in accrued payroll and fund financial statements, and computed based on rates of pay in effect at June 30, 2020. The Utilities' approximate liability for earned vacation and compensatory time payable to employees at June 30, 2020 is \$53,283.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

Accrued Wheeling and Property Taxes

Accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Deferred inflows of resources in the Statement of Net Position consist of unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Net Position

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two proceeding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended June 30, 2019 from which the summarized information was derived.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Management's Review

The Utilities has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utilities' deposits in banks at June 30, 2020, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utilities.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

	Electric Plant			
<u>Electric Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 58,654			\$ 58,654
Construction in progress	<u>26,176</u>	<u>\$ 49,910</u>	<u>\$42,176</u>	<u>33,910</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>84,830</u>	<u>49,910</u>	<u>42,176</u>	<u>92,564</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings	429,514			429,514
Machinery and equipment	1,142,404	1,332		1,143,736
Accessory electric equipment	3,366,415	26,199		3,392,614
Neal #4	2,576,017	37,806	14,848	2,598,975
Common transmission system	2,432,104	137,016	27,912	2,541,208
Distribution Plant:				
Distribution facilities	5,989,899	17,625		6,007,524
Street lights and signal systems	283,427			283,427
General Plant:				
Transportation equipment	480,743			480,743
Other equipment	<u>163,461</u>	<u>14,655</u>		<u>178,116</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	16,863,984	234,633	42,760	17,055,857
Less accumulated depreciation ...	<u>9,315,408</u>	<u>425,488</u>	<u>42,760</u>	<u>9,698,136</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>7,548,576</u>	<u>(190,855)</u>		<u>7,357,721</u>
TOTAL CAPITAL ASSETS - NET	\$ 7,633,406	\$(140,945)	\$42,176	\$ 7,450,285

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

3. CAPITAL ASSETS - Continued

Capital assets activity for the year ended June 30, 2020 was as follows:

<u>Water Fund</u>	<u>Water Utility Plant</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 58,144			\$ 58,144
Construction in progress	16,250		\$16,250	
NOT BEING DEPRECIATED	74,394		16,250	58,144
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings	3,242,237	\$ 22,500		3,264,737
Intakes	1,332,474			1,332,474
Equipment	1,200,661	160,382	46,905	1,314,138
Mains	2,018,031	189,370	54,683	2,152,718
Wells	198,130			198,130
Storage and Distribution Plant:				
Towers	481,619			481,619
Mains, hydrants, and service	220,871			220,871
Meters	380,307	21,322		401,629
General Plant:				
Tools and work equipment	90,637	37,792	7,825	120,604
TOTAL CAPITAL ASSETS BEING DEPRECIATED	9,164,967	431,366	109,413	9,486,920
Less accumulated depreciation ...	4,457,558	217,022	83,224	4,591,356
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	4,707,409	214,344	26,189	4,895,564
TOTAL CAPITAL ASSETS - NET	\$4,781,803	\$214,344	\$42,439	\$4,953,708

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

4. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2020 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue notes	\$1,294,568		\$174,960	\$1,119,608	\$64,398
Net pension liability	430,624		50,329	380,295	
Total	<u>\$1,725,192</u>		<u>\$225,289</u>	<u>\$1,499,903</u>	<u>\$64,398</u>

Revenue Notes

On October 1, 2013, the Utilities issued \$2,890,000 of electric revenue notes, series 2013, with an interest rate of 2.75% per annum. The notes matured in the year ending June 30, 2020. The notes were issued to refund the Series 2008, 2009, and 2011 revenue notes.

The Series 2013 notes were secured by future net revenues of the Electric Utility. Annual principal and interest payments on the notes were expected to require less than 40% of net revenues. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$112,916 and \$1,200,490, respectively.

On June 30, 2014, the Utilities issued \$1,400,000 of water revenue notes, series 2014, with the final maturity due in the year ending June 30, 2035. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2019, July 1, 2024 and July 1, 2029, respectively, plus 100 basis points. The rate adjusted from 2.5% to 2.77% on July 1, 2019. The rate shall in no event exceed the prior rate by more than 100 basis points (1%); and the rate so adjusted shall in no event be below 2.5% per annum.

The revenue notes are secured by future net revenues of the Water Utility. Annual principal and interest payments on the notes are expected to require less than 50% of net revenues. The total principal and interest remaining to be paid on the notes is \$1,358,252. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$94,660 and \$550,047, respectively.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

4. LONG-TERM LIABILITIES - Continued

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

The Water Utility was in compliance with the revenue note provisions during the year ended June 30, 2020.

Details of revenue notes payable at June 30, 2020 are as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2020</u>
Revenue notes, Series 2014	June 30, 2014	2.77%	Dec. 1, 2034	\$94,597	\$1,400,000	<u>\$1,119,608</u>

A summary of the annual principal and interest requirements to maturity by year is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 64,397	\$ 30,200	\$ 94,597
2022	66,204	28,393	94,597
2023	68,061	26,536	94,597
2024	69,971	24,626	94,597
2025	71,934	22,663	94,597
2026 - 2030	391,098	81,889	472,987
2031 - 2035	<u>387,943</u>	<u>24,337</u>	<u>412,280</u>
Total	<u>\$1,119,608</u>	<u>\$238,644</u>	<u>\$1,358,252</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

5. PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, IA 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

5. PENSION PLAN - Continued

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utilities contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utilities' contributions to IPERS for the year ended June 30, 2020 totaled \$45,771.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the Utilities reported a liability of \$380,295 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Utilities' collective proportion was 0.006567%, which was a decrease of 0.000237% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Utilities recognized pension expense of \$70,709. At June 30, 2020, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,054	\$13,673
Changes of assumptions	40,735	
Net difference between projected and actual earnings on IPERS' investments		42,854
Changes in proportion and differences between Utilities' contributions and the Utilities' proportionate share of contributions	10,847	17,356
Utilities' contributions subsequent to the measurement date	<u>45,771</u>	
 TOTAL	 <u>\$98,407</u>	 <u>\$73,883</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

5. PENSION PLAN - Continued

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued - \$45,771 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Total</u>
2021	\$ 6,920
2022	(7,406)
2023	(8,543)
2024	(9,970)
2025	<u>(2,248)</u>
Total	<u><u>\$(21,247)</u></u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage Growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

5. PENSION PLAN - Continued

Actuarial Assumptions - Continued - The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private Credit	<u>3.0</u>	3.01
Total	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Utilities' proportionate share of the net pension liability	\$675,282	\$380,295	\$132,864

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

5. PENSION PLAN - Continued

IPERS Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2020, the Utilities reported payables to IPERS of \$4,041 for legally required employer contributions and \$2,693 for legally required employee contributions withheld from employee wages but not yet remitted to IPERS.

6. OTHER RETIREMENT PLAN

In addition to the IPERS plan, the Utilities sponsors a defined contribution plan which allows eligible employees to make annual elective contributions, subject to an annual limit. There are no employer matching contributions.

7. RATES

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

8. LEASES

The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The Electric Utility's total investment of \$2,598,975 is included in utility plant in service with \$1,524,991 included in accumulated depreciation. The lease of the Neal 4 plant is a long-term commitment based on capacity, and the revenues from such leases are included in operating income. The amount is determined by a formula based on usage and totaled \$214,932 for 2020.

9. RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2020

10. COMMITMENTS AND CONTINGENCIES

Milford Municipal Utilities is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or accruals, and if not so covered, are without merit or are of such a kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of Milford Municipal Utilities if disposed of unfavorably.

At year-end, economic activity in the United States continued to experience significant disruption resulting from uncertainty caused by the world-wide coronavirus pandemic. Utilities management is closely monitoring its operations, liquidity, and financial resources and is actively working to minimize the current and future impact of this unprecedented situation. Management has concluded that while it is reasonably possible there could be a material negative effect on the financial statements, the specific impact is not readily determinable as of the date of the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

REQUIRED SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF THE UTILITIES' PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SIX YEARS*
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Utilities' proportion of the net pension liability006567%	.006805%	.006845%	.006272%
Utilities' proportionate share of the net pension liability ...	\$380	\$431	\$456	\$395
Utilities' covered-employee payroll	\$500	\$511	\$511	\$450
Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.00%	84.34%	89.24%	87.78%
Plan fiduciary net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

<u>2016</u>	<u>2015</u>
.006371%	.006698%
\$315	\$266
\$436	\$438
72.25%	60.73%
85.19%	87.61%

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF UTILITIES' CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TEN YEARS
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 46	\$ 47	\$ 46	\$ 46
Contributions in relation to the statutorily required contribution	<u>(46)</u>	<u>(47)</u>	<u>(46)</u>	<u>(46)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Utilities' covered-employee payroll	\$485	\$ 500	\$ 511	\$ 511
Contributions as a percentage of covered-employee payroll	9.44%	9.44%	8.93%	8.93%

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 40	\$ 39	\$ 39	\$ 35	\$ 33	\$ 27
<u>(40)</u>	<u>(39)</u>	<u>(39)</u>	<u>(35)</u>	<u>(33)</u>	<u>(27)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 450	\$ 436	\$ 438	\$ 403	\$ 411	\$ 388
8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

See Accompanying Independent Auditors' Report

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2020

Changes of Benefit Terms:

There are no significant changes in benefit terms.

Changes of Assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.5% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
DIRECT COSTS:		
Distribution maintenance	\$ 14,971	\$ 5,553
Equipment maintenance	65,549	30,875
Neal #4 charges - coal, oil, power generator	156,830	293,234
Purchased power	279	60
Purchased power - NIMECA	1,117,546	1,337,622
Purchased power - NIMECA transmission operating	99,637	105,639
Purchased power - NIMECA transmission	13,031	12,786
Property Tax - transmission	9,245	3,204
SPP NITS transmission	296,262	268,750
Service charge - NIMECA		18,000
Purchased power - WAPA	294,435	293,971
Wheeling	18,713	18,242
Inventory Cost of Goods Sold	55,049	-
TOTAL DIRECT COSTS	<u>2,141,547</u>	<u>2,387,936</u>
OPERATING EXPENSES:		
Administrative salaries	166,895	163,563
Operational salaries	188,802	169,070
Small tools and supplies	45,348	27,152
Sub-contractor	10,199	7,063
Vehicle expense	20,125	18,116
TOTAL OPERATING EXPENSES	<u>431,369</u>	<u>384,964</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

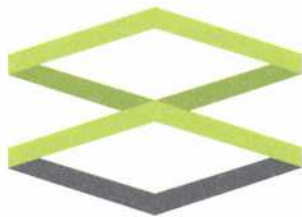
	<u>2020</u>	<u>2019</u>
ADMINISTRATIVE EXPENSES:		
Advertising	\$ 235	\$ 241
Bad debts	13	1,800
Building maintenance - office	8,366	7,826
Building maintenance - mowing	1,742	2,030
Cash short and long		36
Community development	442	2,338
Computer repairs and maintenance	16,051	11,627
Computer supplies and programs	13,028	12,533
Depreciation	425,488	415,158
Director fees	2,666	3,232
Dues and subscriptions	7,606	8,457
Education and safety	7,902	8,630
Employee benefits	55,546	53,170
Energy efficiency	6,988	7,269
Insurance - general	61,350	51,674
IPERS	38,593	42,002
Laundry and uniforms	351	643
Legal and professional	95,772	34,760
Iowa Utilities Board	5,773	5,299
Regulatory commission expense	17,711	14,530
Maintenance - office equipment		2,504
Miscellaneous administrative expenses	8,894	6,222
NIMECA service charges	16,803	16,404
NIMECA dues	12,390	11,760
Office supplies	7,257	4,574
Payment in lieu of tax		
Payroll taxes	25,253	25,448
Postage	5,571	5,652
Property taxes	5,126	6,144
Supplies		771
Telephone	3,375	4,268
Travel	1,076	2,191
Utilities and sanitation	1,312	1,315
TOTAL ADMINISTRATIVE EXPENSES	<u>852,680</u>	<u>770,508</u>
 TOTAL	 <u>\$3,425,596</u>	 <u>\$3,543,408</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
DIRECT COSTS:		
Distribution maintenance	\$ 51,749	\$ 53,267
Equipment maintenance	3,860	10,736
Lab	9,872	8,669
Plant maintenance	8,923	10,433
Product - chlorine and fluoride	47,862	42,045
Purchased power	40,457	47,631
TOTAL DIRECT COSTS	<u>162,723</u>	<u>172,781</u>
OPERATING EXPENSES:		
Salaries	225,706	171,576
Small tools and supplies	1,150	4,637
Sub-contractor	26,583	14,123
Vehicle expense	1,722	8,280
TOTAL OPERATING EXPENSES	<u>255,161</u>	<u>198,616</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ADMINISTRATIVE EXPENSES:		
Advertising	\$ 71	\$ 241
Bad debt expense		1,187
Building Maintenance – office	35	
Building maintenance - mowing	1,501	1,825
Community development	619	2,115
Computer repairs and maintenance	16,334	8,825
Computer supplies and programs	7,314	7,236
Depreciation	217,022	209,022
Director fees	2,666	3,247
Dues and subscriptions	3,415	3,068
Education and safety	4,043	5,820
Employee benefits	53,865	48,364
Insurance - general	32,466	29,867
IPERS.....	32,116	22,671
Laundry and uniforms	859	368
Legal and professional	69,049	59,294
Maintenance - office equipment		2,097
Miscellaneous	4,292	3,506
Office supplies	6,367	5,171
Payroll taxes	17,303	13,767
Postage	5,602	4,765
Sales tax	204	405
Supplies		8
Telephone	1,979	2,281
Travel		73
Utilities and sanitation	7,440	1,153
TOTAL ADMINISTRATIVE EXPENSES	<u>484,562</u>	<u>436,376</u>
 TOTAL	 <u>\$902,446</u>	 <u>\$807,773</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of Milford Municipal Utilities

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities) as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated January 8, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milford Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-A-20 and I-B-20 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' Responses to Findings

Milford Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winters, Stave & Co., LLP

January 8, 2021
Milford, Iowa

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020

Part I: Findings Related to the Financial Statements

Internal Control Deficiencies:

I-A-20 Segregation of Duties

Criteria - Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Utilities' financial statements.

Condition – Employees who handle cash receipts are also involved with the posting of payments and reconciling bank accounts.

Cause - The Utilities' has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect - Inadequate segregation of duties could adversely affect the Utilities' ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Utilities' review its control activities to obtain the maximum internal control possible under the circumstances, utilizing currently available staff and the Trustees to maintain its diligence in the review of the financial records.

Response – The Utilities' feels that additional personnel would not be cost effective. However, management and the Board will review procedures and investigate available alternatives.

Conclusion - Response accepted.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020

Part I: Findings Related to the Financial Statements - continued

Internal Control Deficiencies - continued:

I-B-20 Financial Reporting

Criteria - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Utilities' financial statements.

Condition - During the audit, we noted the Utilities does not have a system of internal controls which includes steps to fully prepare financial statements and disclosures that are fairly presented in conformity with the accrual basis of accounting.

Cause - As is inherent in many organizations of this size, the Utilities has limited available management and personnel who, while knowledgeable and skillful, have the time to maintain the current knowledge and expertise to fully apply the accrual basis of accounting in preparing the financial statements and the related disclosures.

Effect - Management of the Utilities, in the normal course of performing their assigned functions, may not be able to prevent, or detect and correct, misstatements of the financial statements and the related disclosures on a timely basis.

Recommendation - The Utilities should consider obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

Response - The Utilities will consider obtaining additional knowledge where cost effective to help us better apply the accrual basis of accounting in preparing financial statements and related disclosures.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

Part II: Other Findings Related to Required Statutory Reporting

- II-A-20 Certified Budget - Disbursements during the year ended June 30, 2020 did not exceed the amounts budgeted in the business type activities function.
- II-B-20 Questionable Disbursements - No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-20 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-20 Business Transactions - No business transactions between the Utilities and Utility officials or employees were noted.
- II-E-20 Restricted Donor Activity - No transactions were noted between the Utilities, Utility officials, Utility employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- II-F-20 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-G-20 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-20 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-20 Revenue Notes - No instances of non-compliance with the electric and water revenue note provisions were noted.